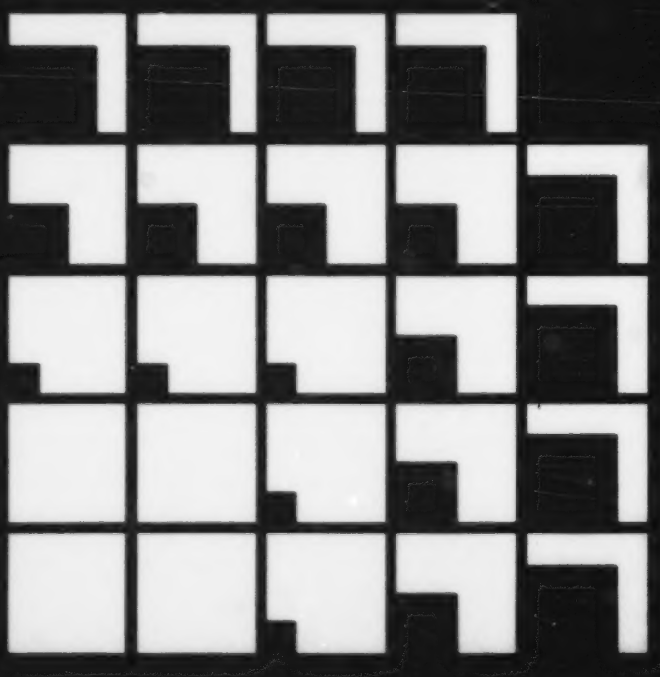
PRIVATIZATION
of Crown Corporations
ORIENTATION AND PROSPECTS



Québec

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PRIVATIZATION OF CROWN CORPORATIONS

Orientation and Prospects

Ministère des Finances
Minister responsible for Privatization

February 1986

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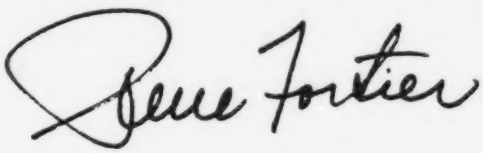
FOREWORD

The commitments and decisions of the Québec government have given rise to a movement in which change is seen as the key to a more competitive, future-oriented Québec.

Changes begun through new policies for economic development are designed to foster strong growth, sound public finances and effective management.

In this spirit, reorientation and privatization are part of a coherent plan of action intended to give a greater role to personal initiative through the rationalization of the Québec government's Crown corporations.



Pierre Fortier

Minister responsible
for Privatization

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INTRODUCTION

The gouvernement du Québec is beginning a process of reorientation and privatization of Crown corporations, as part of a complete re-examination of the role of the State in the economy. In the light of the government's political philosophy, which takes Québec's present economic and social situation into consideration, a special analysis of the position of each Crown corporation will show whether or not its status should be maintained or its role reoriented.

Briefly, the mandate the government received from the people in December 1985 dictates a very clear change of direction in relation to traditional economic policies. Before that it was possible to justify a relatively intensive policy of intervention by the Québec government in the production of goods and services, normally the province of the private sector.

The 1960s were witness to a determination to give Québec an economic and managerial infrastructure that would allow it to take its rightful place in the North American economy. The government acted to rectify the shortcomings of the private sector, where Francophone Quebecers were under-represented. Things are very different today. The Québec of 1986 is the product of the Quiet Revolution, a process of catching up that has gone on for 25 years. A new, Francophone managerial class has taken over in many sectors of the economy, and a record number of dynamic business firms have been established, as the new registrations with the Montréal Stock Exchange show. It is therefore becoming increasingly difficult to justify government intervention on the grounds of entrepreneurial shortcomings in Québec.

INTRODUCTION

There is today a general questioning of the relevance of government corporations in most industrialized countries.

After the past 15 years of turmoil, the new economic international order that is gradually taking hold is imposing its implacable law of wages on governments. Economic growth now depends more on increased efficiency. Few countries today can indulge in the luxury of a torpid nationalized sector that has become accustomed to staying afloat by means of public funds. It is not surprising that privatization of government corporations has become, in the space of a few years, a political leitmotiv in the majority of industrialized countries. The experiences of the British have shown that the return of Crown corporations to the private sector can be a very useful tool in this regard. Governments can no longer absorb the annual deficits of certain government corporations. These are the two factors that justify privatization, in Québec as elsewhere. In short, Québec is an integral part of the international movement toward economic reorganization, whose goal is greater efficiency through entrepreneurial vitality.

According to the philosophy of the government, its role is that of catalyst, whose primary function is to create conditions that are favourable to entrepreneurship and growth. In addition to the immediate intention of returning to the private sector activities that can be carried on more efficiently there, privatization has the structural objectives of improving and strengthening key economic sectors.

To attain this goal, the Québec government has appointed a Minister responsible for Privatization who will direct the process.

The mandate of the Minister responsible for Privatization was laid down in its Order No. 2653-85 of December 13, 1985, which stipulates:

> THAT, in accordance with section 9 of the Executive Power Act (R.S.Q., chap. E-18), the Minister responsible for Privatization be entrusted, under the direction of the Minister of Finance, with reviewing and analysing the role of Crown corporations in a socio-political situation marked by a reduction in the importance of the role of the State in the economy and by increased confidence in the value of entrepreneurship, individual initiative and market trends to ensure Québec's economic growth and, to this end, he be responsible, with the help of a committee formed for this purpose, for:
>
> - establishing criteria to justify the maintenance of existing Crown corporations or the creation of new ones;
>
> - determining, according to these criteria, which Crown corporations should be transferred, in whole or in part, to the private sector because their position so dictates;
>
> - determining the order of priority for Crown corporations for which privatization is recommended;
>
> - defining the procedure, the terms and conditions and the schedule for carrying out privatization of the corporations identified;
>
> - supervising the process and making sure that it is carried out in the best interests of the government as owner.

THE BRITISH AND CANADIAN EXPERIENCE

Québec has a distinct advantage as it begins its privatization process, since it has before it the experience of a number of other governments. In some 30 countries privatization policies are already being implementing, and two of these merit special attention.

The United Kingdom is recognized as the leader in this field. The government there began the denationalization of Crown corporations seven years ago and has acquired indisputable skill in the matter. In Canada, the federal government launched its privatization program in 1983 and has since accumulated valuable experience.

The approaches used by these two governments have been studied and discussions held with the officials responsible for the programs. The comments which follow summarize their experience, of which a detailed account is given in the Appendix.

The British experience

The process undertaken in Great Britain is a valuable source of information. Since 1977, 15 firms have been privatized and eight others will be returned to the private sector within the next two years. In the end, 600 000 jobs will have been transferred to this sector. This has had extensive spread effects on the British economy, particularly in terms of industrial impact, strengthening of the structure of the economy and increased efficiency of the denationalized firms.

The Canadian experience

Most of the industrial firms likely to be privatized are found under the umbrella of the CIDC (Canadian Industrial Development Corporation). In the winter of

1984-1985, the new Conservative government set up a Secretariat for Privatization, under the authority of a committee of senior ministers directed by the President of the Treasury Board, to coordinate and advise it on the whole privatization process. The Canadian experience began in a context of division of responsibilities between the two decision-making agencies, the CIDC and the Secretariat for Privatization.

Useful observations for Québec

Discussions with the officers responsible in London and Ottawa and an exhaustive study of the literature on the subject resulted in the following observations as to the criteria for success of a privatization process:

(a) Because of the many difficulties inherent in the privatization process, public support is essential to its success. The technical quality of the projects is important but not sufficient. All analysts agree on the necessity of adequate information for the public and the various groups affected by privatization.

(b) The public is more interested in the structural aspects of privatization, the "why" of the process and its effects, than in the technical and financial aspects. It is essential to present adequate reasons for the orientation proposed.

(c) From a government point of view, privatization is an integrated process that concerns several corporations.

(d) Good management of divergent interests competing to obtain control of a corporation contributes to the success of the procedure. Privatization of a corporation will usually attract a number of competing groups and each will try to gain as much support as possible. It is therefore

important to avoid any conflict of interest and to make certain that the final bid for a corporation is made according to objective criteria.

(e) Management of the process demands that the government be quite clear about the type of solution sought for a corporation, its strategic option, before making its privatization public.

Québec Government Crown Corporations

In Québec, there are over 60 Crown corporations and related agencies. The industrial and commercial sector has some fifteen such corporations with relatively diversified characteristics.

A brief historical review shows that the first Crown corporation in Québec was set up in 1921: the Commission des liqueurs, which became the SAQ (Société des alcools du Québec) in 1971. Its creation stemmed more from a moral concern than from an economic objective.

In 1943 a second Crown corporation, the RSQ (Raffinerie de sucre du Québec), was established with the initial objective of operating a sugar beet refinery. In 1983, it entered the retail white sugar market.

In 1944, Hydro-Québec was set up to ensure the production, transmission and distribution of electricity.

During the Quiet Revolution the establishment of Crown corporations speeded up.

Their growth stemmed partly from the economic thinking that has underlain government policies in the past 25 years. The desire to be "Masters in our own house" was decisive in the creation of most of them. The specific motives varied: to repatriate internal decision-making centres into the French-speaking community, to enable Québec society to control, plan and orient its expansion and development, to establish large-scale institutions to accelerate the development or processing of our natural resources, to promote the cultural heritage of Quebecers, and so forth.

This new orientation took concrete form in the creation of the Office de récupération forestière, which became REXFOR (Société de récupération, d'exploitation et de développement forestier du Québec) in 1969, and the SGF (Société générale de financement) which was a mixed enterprise at first but became entirely public in 1973.

In 1963, Hydro-Québec nationalized most hydroelectric enterprises. In time, its role was expanded to include research, promotion, conversion and energy conservation and any other related field.

In 1964, Sidbec was created to operate an iron and steel complex, alone or with partners.

In 1965, the Caisse de dépôt et placement du Québec was established, followed in 1969 by two corporations in the natural resources sector: SOQUEM (Société québécoise d'exploration minière) and SOQUIP (Société québécoise d'initiatives pétrolières) in 1969.

During the same period, the following Crown corporations were set up: in 1967, the Société du crédit industriel, which became the SDI (Société de développement industriel) in 1971, and the SHQ (Société d'habitation du Québec), and in 1969, Radio-Québec and the SAO (Société d'aménagement de l'Outaouais).

Between 1970 and 1976, another group of Crown corporations was added to the list: in 1970, Loto-Québec; in 1971, the SDBJ (Société de développement de la baie James), the SEBJ (Société d'énergie de la baie James) and the STQ (Société des traversiers du Québec); in 1975, SOQUIA (Société québécoise d'initiatives agro-alimentaires), the Société de cartographie du Québec and SOQUIJ (Société québécoise d'information juridique); finally, in 1976, the Société du parc industriel et commercial aéroportuaire de Mirabel.

The years 1976 to 1985 were characterized by the creation of Madelipêche in 1977; in 1978, the SNA (Société nationale de l'amiante) and SODICC (Société de développement des industries de la culture et des communications); in 1980, the SQAE (Société québécoise d'assainissement des eaux); in 1983, the SQT (Société québécoise des transports); in 1984, the SIQ (Société immobilière du Québec); and lastly, in 1985, the SEPAQ (Société des établissements de plein air du Québec).

The growing number of Crown corporations in Québec has accentuated the weight and role of government in Québec's economy.

Similarly, the public sector has grown rapidly over the last 25 years. For instance, Québec government expenditure in relation to GDP (Gross Domestic Product) reached 25.9% in 1985 (see table 1 on page 55).

Adding the other levels of the public administration in Québec, the percentage now exceeds 50% of the GDP (see Table 3 on page 57).

Total public administration expenditure in Canada, in relation to GDP, was estimated at 47.0% in 1983, while that of the OECD countries did not exceed 42.0% for the same year (see Table 2 on page 56 and Graph 1 on page 23).

This strong government presence went hand in hand with a considerable development in Québec's Crown corporations. The 15 largest industrial and commercial corporations employ directly close to 26 000[1] persons, or over 64 000 if we count the number of jobs in subsidiaries and the interests of the parent companies in various firms (over 20% control). Hydro-Québec, the SGF and SOQUIA alone employ directly or through their control of other firms a total of 47 000 persons. There are some 18 000 direct jobs at Hydro-Québec, 2 400 at the SAQ and 3 400 at Sidbec, for a total of over 23 000 employees.

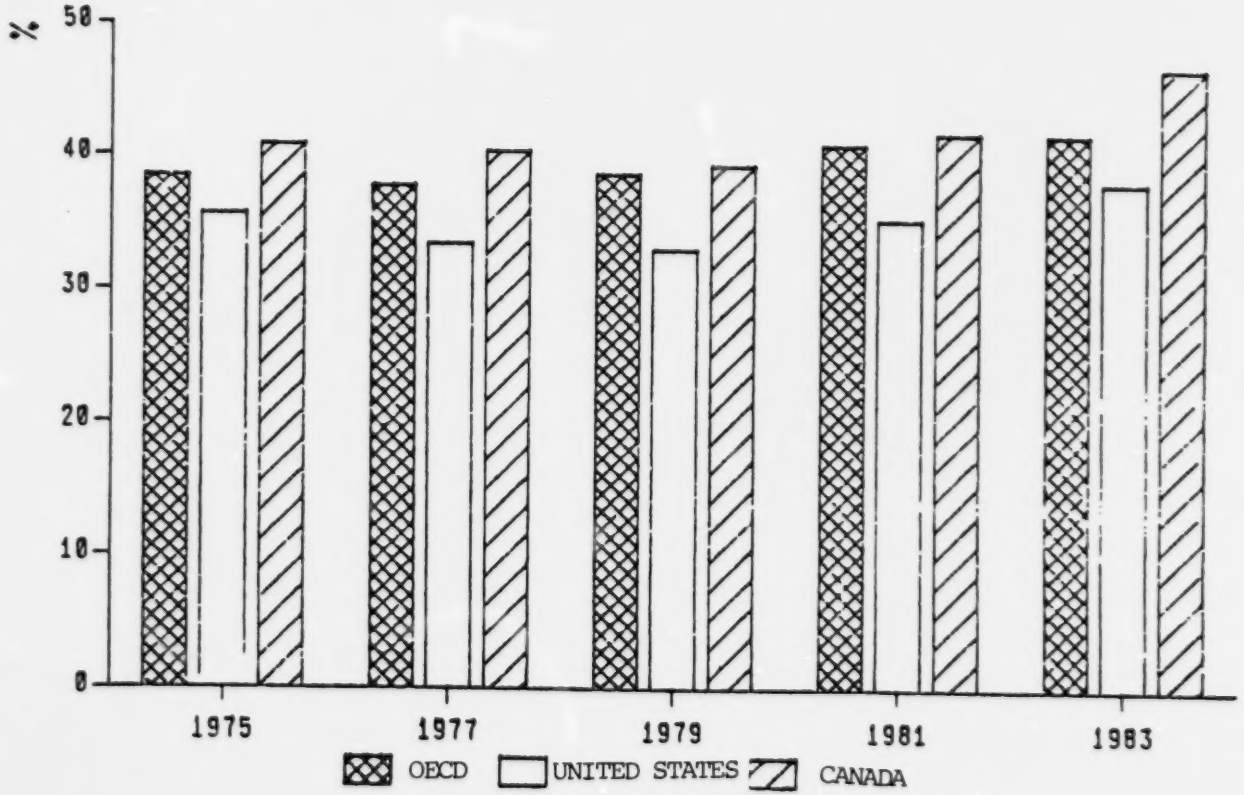
Crown corporation investments in relation to total investments amounted to 13.6% in 1975, reached a record 24.5% in 1978, then fell in 1985 to 12.5% (see tables 3 and 4 on pages 57 and 58).

Most of these investments were made by Hydro-Québec, for if we discount its contribution we are left with the figures 1.7% in 1975, 0.8% in 1978 and 2.3% in 1985.

1 Compilation of the ministère des Finances du Québec.

Graph 1

EXPENDITURES OF PUBLIC ADMINISTRATIONS
IN PERCENTAGE OF GDP



Crown corporation investments in relation to GDP were 3.1% in 1975, 3.5% in 1981 and 2.0% in 1985 (see Graph 2 on page 25). Still excluding Hydro-Québec, the proportions are 0.4%, 0.2% and 0.4% for the same years.

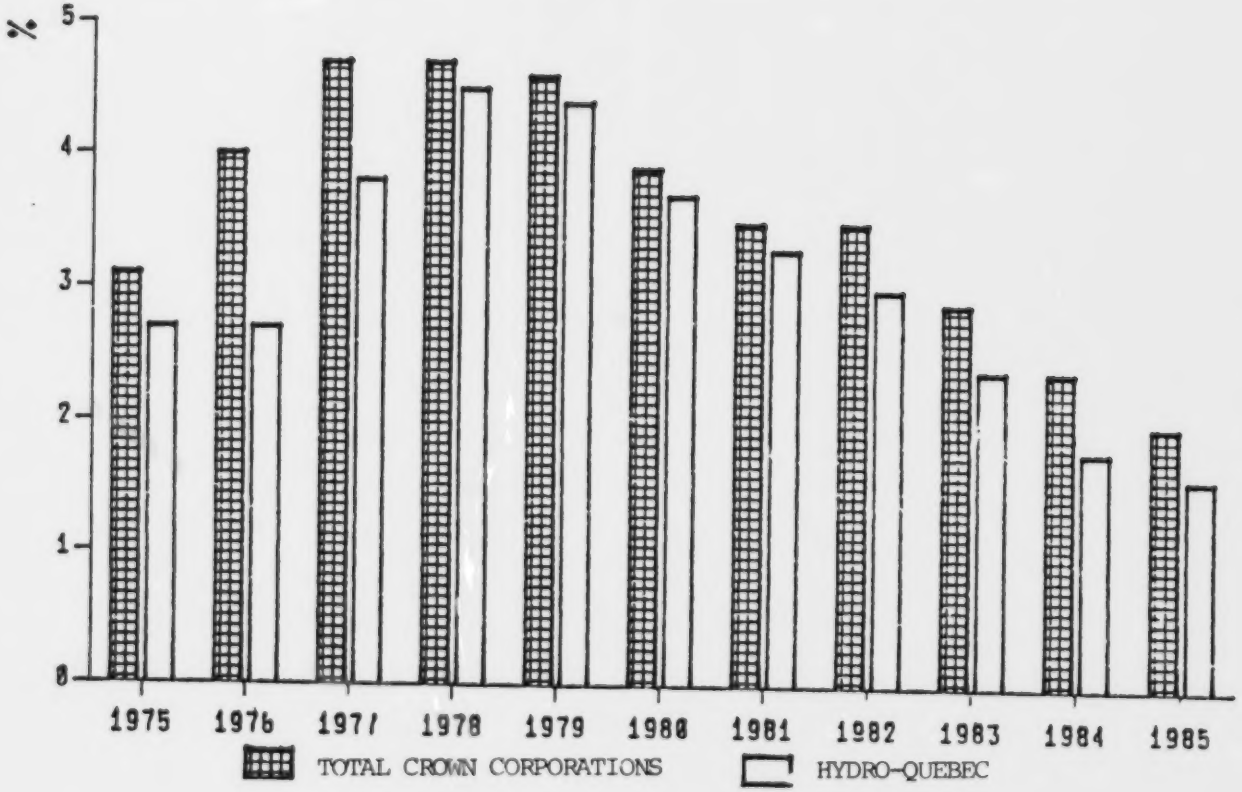
Furthermore, a survey of the financial position as at March 31, 1985, of the 15 commercial and industrial Crown corporations reveals that the government's assets (government investments plus accumulated surpluses) in these corporations stood at over $7 billion and their long-term debt reached $19 billion (see summary table on page 27 and tables 5 and 6 on pages 59 and 60). It should be noted, however, that the net accumulated surplus, which was $1.2 billion at March 31, 1985, becomes an accumulated deficit of approximately $900 million, if the results for Hydro-Québec are excluded.

With respect to the profit-earning capacity of Crown corporations in 1985, they derived total revenue of $8 billion and net earnings of $319 million, a profit of about 4% (see tables 5 and 6). However, if Hydro-Québec is excluded as a natural monopoly, and keeping the two fiscal monopolies (SAQ and Loto-Québec), the figures are $3 billion and $19 million respectively, representing a profit of 0.6%. It should be noted as well that Sidbec, the SNA and the SDBJ accumulated more than one billion dollars in net losses.

The 1984-1985 year was marked by extraordinary losses related to rationalizing Sidbec's and the SNA's operations.

Graph 2

INVESTMENTS BY CROWN CORPORATIONS
IN PERCENTAGE OF GDP



Finally, among the 15 Crown corporations listed in the summary table, eight had an accumulated surplus and six a deficit. It should be noted that this list is in no way indicative of what the future holds for these corporations, within the framework of this document. It is given for information purposes only, to facilitate comprehension of the text and to point up the situation.

SUMMARY TABLE

INVESTMENT, ACCUMULATED SURPLUS (DEFICIT) AND NET ASSETS OF THE GOUVERNEMENT DU QUÉBEC IN CERTAIN CROWN CORPORATIONS
(IN THOUSANDS OF DOLLARS)

CROWN CORPORATION	LISTED GOVERNMENT INVESTMENT AT MARCH 31, 1985	ACCUMULATED SURPLUS OR (DEFICIT) AT MARCH 31, 1985	GOVERNMENT ASSETS	
			1985	1984
Hydro-Québec*	4 374 109	2 136 541	6 510 650	6 365 203
Loto-Québec	170	41 930	42 100	29 181
RSQ	36 000	(20 839)	15 161	17 491
SAQ	30 000	68	30 068	41 613
SIDBEC*	652 835	(836 209)	(183 374)	127 464
SGF*	289 434	64 985	354 419	283 726
SNA*	96 595	(136 506)	(39 911)	34 629
SOQUEM	110 600	41 992	152 592	148 261
SOQUIP	203 900	10 750	214 650	167 168
REXFOR	79 430	9 989	89 419	86 894
SQT*	42 108	(17 524)	24 584	13 922
Madelipêche*	8 007	(3 511)	4 496	612
SDBJ*	60 000	(59 280)	720	24 453
SÉPAQ	-	-	-	-
SOQUIA	52 100	(3 204)	48 896	48 150
Total	6 040 458	1 217 590	7 258 048	7 388 767
Total without Hydro-Québec	1 666 349	(918 951)	747 398	1 023 564

*As at December 31, 1984.

Source: Financial statements of the corporations.

Orientation and Guiding Principles

The Opening Speech of the First Session of the 33rd Legislature of the Québec National Assembly bore witness to the desire for change underlying the government's economic policy, of which the privatization program is an important element. It announced that the government was fully convinced that workers would find steady, remunerative and fulfilling work primarily in private enterprise. And this sector would be the main factor in Québec's developing a competitive edge. The government must move with the times, and look to the future. It must adapt. The State is no longer, and can no longer be, the prime mover in social change. Therefore the government will develop a new attitude that allows more room for individual initiative.

Privatization fits into a structural framework, where each corporation is subjected to a particular examination and solutions are adapted to its specific features. Nevertheless, general rules must apply to the whole process.

Six guiding principles have therefore been drawn up, defining an integrated operation, despite the great diversity of Crown corporations. These principles are as follows:

A GREATER ROLE FOR THE PRIVATE SECTOR

> Commercial production of goods and services in Québec's economy belongs to the private sector, except in extraordinary circumstances justified by the public interest.

Justification of the presence of the State for reasons of public interest must be reviewed periodically in accordance with Québec's industrial strategy, which must move with the times and adapt to circumstances and trends. A measure may become out of date and have to be modified. The conditions which dictated the creation of a Crown corporation may have altered.

The government recognizes that private enterprise should have the primary role in the commercial production of goods and services of a personal nature. In certain circumstances, if the market is not operating efficiently and in the public interest, the government may take the place of the private sector in the commercial production of goods and services. But the government must prove the necessity of such intervention.

If such conditions no longer apply, the privatization procedure should begin; however, if they are still relevant the maintenance of a Crown corporation could be justified. Moreover, the creation of any new Crown corporation or new subsidiary of an existing one must be an exceptional action based on this principle.

THE STRUCTURAL OBJECTIVE TAKES PRIORITY OVER THE FINANCIAL OBJECTIVE

Privatization is not an end in itself. When it must take place, denationalization of a Crown corporation must be designed first to bolster Québec's economic structure while assuring Québec's presence in key economic sectors. Realization of a fair value for the assets transferred must also be considered.

Two goals may be sought in privatizing a corporation. The structural aspect of the process will generally be the first. However, the financial objective cannot be disregarded. The government must also consider the need to realize a fair value for the assets transferred to the private sector.

The objectives are not necessarily contradictory. But attaining the first may impose restrictions on the second. For example, for structural reasons, eligible purchasers for a Crown corporation may be limited to firms controlled by Quebecers, thus excluding from the final bid potential buyers not under Québec control. For the same reasons, it may be decided that a Crown corporation should not be sold to an industrial conglomerate but privatized by a public distribution of shares to ensure corporate autonomy.

This ranking of objectives calls for a two-stage privatization process. Structural constraints are first determined in the name of strategic considerations. Then the process is set in motion. The best possible value is sought in view of these constraints.

A PRAGMATIC APPROACH

Privatization must be done pragmatically, case by case, and may take place in a great many ways, depending on conditions specific to the corporation and its industrial sector.

A number of denationalization methods may be envisaged and deemed pertinent, according to circumstances. Some corporations may be sold by a public distribution of shares, which may imply the choice of majority shareholder.

There are few public enterprises in Canada that are not subject to controlling shareholders. The challenge in a program that aims for privatization through a public distribution of shares is to "manage" the behaviour of interested buyers who wish to become majority shareholders.

Other Crown corporations could be sold as subsidiaries or merge with other firms which may or may not be closely connected with the sector.

Finally, the sale of the assets of a Crown corporation to several different buyers may sometimes prove to be the best solution.

RECOGNIZED RULES

Privatization is a public process which must comply with the equity and disclosure requirements applying to public companies.

The acquisition and merging of firms are governed by the Companies Act and the Securities Act, and there is a body of rules regulating corporate behaviour when a change in the status of a public company occurs. These rules concern mainly the disclosure of information to all shareholders and their equitable treatment, particularly minority shareholders. It is an accepted fact that the Securities Act and an impressive jurisprudence govern corporate behaviour, to the satisfaction of all those involved.

Should this legal framework apply in the case of privatization of Crown corporations since the government is the seller, and must therefore comply with stricter rules of disclosure? Imposing more restrictive rules will not improve things, particularly as there are no minority shareholders in the case of a Crown corporation. The government intends to abide by the rules dictated by current business practices.

The corporate legal framework allows administrators considerable discretion in making their decisions. They are bound to exercise their judgment faced with the complex choices offered. As seller, the government should also benefit from this leeway.

It goes without saying that the government must also respect the legal setup of Crown corporations. Unlike companies in the private sector, Crown corporations are generally governed by specific acts, and privatization obliges the government to respect their provisions.

EQUITABLE TREATMENT

The government will make certain that employees, communities and, if applicable, suppliers are fairly treated during implementation of any rationalization procedure which proves necessary.

Certain Crown corporations are in a poor financial position. One of the reasons for privatization is to put an end to the financial drain of some corporations whose deficits are absorbed by the public treasury. These financial losses are attributable to two factors: financing costs and operational imbalances.

Financing costs

Financing costs for Crown corporations are often the cause of such losses. Because of the government's borrowing powers, corporations support high rates of indebtedness. The purpose of privatization is to correct such situations. Financial reorganization costs constitute one of the least pleasant aspects of the privatization process, but for certain corporations that are heavily in debt they are inevitable.

Operational imbalances

But the losses of some corporations are not solely the result of excessively high financial costs. Most are the result of operational imbalances. In the private sector, a firm will founder if its operational deficit is not rectified. Therefore, a reorganization of operations is absolutely essential for several corporations.

The government could leave to buyers the task of reorganizing and rationalizing, or it could carry out the necessary rationalization before putting the corporations on the market. Whatever is decided, the government cannot dodge the issue since many individuals and communities will be affected; the privatization process will not free the government from certain obligations towards those concerned.

To carry out this responsibility, the government may require, as a condition of purchase, that a minimum number of jobs be maintained or that communities or firms continue to enjoy the benefits of certain trade agreements; second, it will have to make sure that, in cases of dismissal, the employees affected are treated in a fair and equitable manner.

Since the government is determined to bring an end to the deficits of Crown corporations, it must make sure that their operations are rationalized.

GENUINE, PRODUCTIVE COMPETITORS

Crown corporations that maintain their status will have to perform in accordance with rigorous production criteria and strict rules with a view to offering genuine competition on the market.

Not all corporations will be privatized, and some will have only a partial change of status. Those that are maintained will be studied carefully, and if necessary their role will be changed. However, a new operational framework will be designed for all corporations; operational and financial performance criteria will be clarified and tightened up, and rules of conduct will be imposed to ensure that these corporations do not enjoy undue advantages over their competitors in the private sector.

THE PROCESS

The privatization process will extend over several years and follow an evolution determined by circumstances and the experience acquired en route. A study of the privatization processes undertaken by other governments, however, suggests that the initial framework should be well-structured.

DIRECTING THE PROCEDURE

The entire procedure for reorienting and privatizing industrial and commercial Crown corporations has been entrusted to the Minister responsible for Privatization.

However, each minister assigned to a Crown corporation will participate, with the Minister responsible for Privatization, in all the steps inherent in the reorientation and privatization procedure for the corporations to which he is assigned.

To ensure the success of the reorientation and privatization program, the Minister responsible for Privatization will be assisted by an advisory committee and a task force.

The advisory committee

An advisory committee will advise the Minister responsible for Privatization on the principles, process and priorities of the privatization program. The members of the committee will be appointed by the Prime Minister.

The task force

Operations will be directed by a task force reporting to the Minister. The task force is composed of no more than 10 members: public servants from the ministère des Finances and private consultants.

JOINT COMMITTEES

The privatization procedure for a given corporation will be led by a joint committee. The purpose of this joint effort is to reconcile the sectorial expertise of the departments assigned to the various corporations and the overall expertise in privatization acquired by the privatization group. In the opinion of those who have worked on privatization in Ottawa and London, efficient administration of this joint effort is essential.

The privatization procedure will begin with the creation of the joint committee. After consulting the minister assigned to the Crown corporation, the Minister responsible for Privatization will submit the Crown corporation's file to the Comité ministériel permanent de développement économique (CMPDE) with a recommendation to begin examining the case. Once the CMPDE has given its approval, privatization of the corporation will begin with the creation of a joint committee. The joint committee is composed of the minister assigned to the corporation, the Minister responsible for Privatization, who presides, representatives of the two departments and, depending on the circumstances, one or more representatives of the Crown corporations.

The joint committee will take over from the department assigned to the corporation on any matter related to privatization. The Minister will officially inform the Crown corporation concerned that, henceforth, any matter or operation directly or indirectly related to the privatization of the corporation (such as a major restructuration, a financial reorganization, the creation of subsidiaries, etc.) must be backed by the joint committee which is the government agency in charge of operations.

A PROCEDURE IN TWO STEPS

Two distinct steps characterize the procedure. The government must first establish its position and decide what it wants to do before going ahead. The government must then administer the procedure enabling it to carry out transactions. This double-barreled operation will help smooth the path of privatization, which is why it is important to begin by fully preparing the business side of the procedure in a market governed by the laws of supply and demand.

Phase I: Examining the strategic options

The first step in privatization is to examine the strategic options available to the corporation and the government, in keeping with the guidelines given above. The joint committee will study whether the corporation should be denationalized, its status modified, its activities redirected or the status quo maintained.

Among other things, the committee will study the constraints and particular problems associated with the privatization of the corporation. It will define the possible options or scenarios of privatization. The option chosen will then be the object of a recommendation, at which point a plan for carrying out the option will be drawn up. The committee's recommendations will be written into the report submitted jointly by the two ministers and submitted first to the CMPDE and then to the Cabinet.

Phase II: Carrying out privatization

The option approved by the Cabinet will be carried out under the Minister responsible for Privatization.

Three general options can be considered for a corporation:

- privatization, partial or complete;

- reorganization, followed by privatization;

- reorientation.

Privatization, partial or complete

Privatization may be accomplished in a variety of ways, depending on the option chosen. For example, it may take the form of a public call for tenders, based on set criteria (Québec ownership, minimum capitalization, financial structure behind the bid, employee profit-sharing, etc.). There could be a random list of bidders and one or two rounds of bidding could be planned. The criteria will make it possible to class the bids according to the structural objective and give them a comparable base.

Reorganization

Some reorganization could be a prerequisite for privatization. It would be carried out under the supervision of the joint committee.

Reorientation

The activities of a corporation will generally be reoriented through the preparation of a plan. Although the exercise will be supervised by the joint committee, the plan should be prepared by the Crown corporation, and respect the parameters set in the Cabinet brief approved at the end of phase I.

A corporation could require, in succession, reorganization, the privatization of certain assets and the reorientation of certain residual elements.

It should be noted that, in some cases, it may be necessary to pass legislation amending the act constituting a corporation.

CONCLUSION

The socio-economic context which resulted in the creation of Québec's Crown Corporation has changed considerably. Witness merely the great number of French-speaking Quebecers who now have decision-making roles.

The proposed privatization program can be justified, then, by acknowledging that this change has occurred; consequently the program requires that the State's role in the economy be redefined.

The government intends to take a pragmatic, rather than an ideological approach toward privatization. In other words, it intends to institute "case-by-case" privatization; the initial goal will be to strengthen Québec's economic structure while ensuring that Québec is present in the key sectors of the economy. An objective privatization process is surely essential.

In addition, the process will be subject to close scrutiny by all concerned. If these interests are to be managed properly, objective criteria will have to be drawn up as part of the consistent privatization policy dealt with in this document.

First of all, management of these interests will require a search for consensus at the level of the government and of each corporation concerned. Because the privatization process is so complicated, and because there are so many difficulties to be overcome, a collective effort will be required at this level, along with a clear wish to act. The British experiment is convincing on this point, particularly with respect to the leaders of denationalized corporations who greeted with enthusiasm the chance to face the new challenges inherent in the transfer to the private sector.

Privatization also involves the interests of groups in competition for control of the corporation. If we are to maintain the climate of confidence in which the privatization program is to proceed, we must be sure that the final bid for that corporation is made in keeping with objective criteria. When it is deemed advisable to proceed by way of a public distribution of shares, the objective nature of the procedure will be assured by the legal and regulatory machinery provided to this end.

Recognition of employee interests in the privatization process is important. The matter of employee pension funds in particular will have to be closely examined.

Finally, privatization can involve a play of interests, at the level of the general public or at least in certain sectors or regions, for the maintenance of goods and services which it is not profitable for a denationalized corporation to supply. One solution possible in such a situation is the inclusion in the conditions of sale of an obligation to maintain the supply of the goods or services in question. This solution necessarily entails an adjustment in the sale price of the corporation. The other solution involves clearly determining the cost for maintaining the supply of goods or services and compensating the corporation involved by means of a subsidy. The second of these solutions has the merit of allowing the expediency of maintaining such goods or services to be discussed.

The Québec government now assumes a catalytic role. It firmly intends to take such action as will create conditions conducive to entrepreneurship and growth. Privatization is not an end in itself; it brings to an end direct government intervention in a great number of sectors, and must itself be a catalyst.

APPENDIX 1

Tables

TABLE 1
ECONOMIC INDICATORS AND PUBLIC SECTOR
GOUVERNEMENT DU QUÉBEC

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Gross Domestic Product											
. in millions of dollars	39 715	46 671	50 575	56 553	62 977	70 312	80 015	84 009	90 432	97 631	104 905
. rate of growth	12.1	17.5	8.4	11.8	11.4	11.6	13.8	5.0	7.6	8.0	7.5
Consumer Price Index											
. index	59.0	63.0	68.2	73.9	80.6	89.0	100.0	111.6	117.8	122.7	128.1
. rate of growth	10.9	6.8	8.3	8.4	9.1	10.4	12.4	11.6	5.6	4.2	4.4
Expenditure of the gouvernement du Québec											
. administrative budget base (in millions of dollars)	9 229	10 717	12 045	13 387	15 110	17 592	20 393	22 259	24 524	25 543	27 200
. rate of growth	21.6	16.1	12.4	11.1	12.9	16.4	15.9	9.2	10.2	4.2	6.5
. in percentage of GDP	23.2	23.0	23.8	23.7	24.0	25.0	25.5	26.5	27.1	26.2	25.9
. per capita	1 494	1 719	1 917	2 124	2 384	2 755	3 168	3 435	3 767	3 905	4 133

Source: CANSIM; Statistics Canada 13-213, 62-010, 91-201.
Ministère des Finances du Québec; Québec financial statements, March 1985, 1985-1986 Budget, Government Budgetary and Financial Policy Statement, December 18, 1985.

TABLE 2
ECONOMIC INDICATORS OF OECD COUNTRIES

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985[1]
Current resources (revenue) of public administrations, in percentage of GDP[2]											
. Total OECD	33.6	34.4	34.8	34.7	35.7	36.6	36.8	37.0	36.2	N/A	N/A
. OECD Europe	39.7	41.1	41.7	41.7	41.9	42.8	43.6	44.5	44.7	N/A	N/A
. United States	29.7	30.6	30.8	31.1	31.7	32.0	32.7	32.1	31.7	N/A	N/A
. Canada	36.9	36.3	36.5	36.2	36.1	36.7	38.7	39.6	39.0	N/A	N/A
Expenditure of public administrations, in percentage of GDP[3]											
. Total OECD	38.4	37.9	37.7	38.2	38.6	40.1	40.9	42.3	41.7	N/A	N/A
. OECD Europe	44.3	44.4	44.7	45.5	45.5	46.5	48.9	49.9	49.5	N/A	N/A
. United States	35.6	34.5	33.4	32.8	33.0	35.0	35.3	37.7	38.1	N/A	N/A
. Canada	40.8	39.4	40.3	40.8	39.3	40.9	41.8	46.0	46.8	N/A	N/A
Expenditure of Québec public administrations, in percentage of GDP[4]											
. Total public administrations	44.4	43.1	45.2	44.8	44.6	47.4	48.9	51.3	50.7	51.4	N/A
. Gouvernement du Québec	22.4	22.3	25.5	23.9	24.6	26.2	26.1	27.2	26.6	26.8	N/A

1 OECD estimates and forecasts.

2 The current resources of public administrations consist mainly of direct and indirect taxes and employee and employer contributions to social security.

3 Total expenditure of public administrations consists mainly of final consumption, interest, subsidies and social security benefits (current expenditure) plus gross fixed capital investment. Final consumption consists of current purchases of goods and services for the public administration, national defence, health and educational services, excluding transfers.

4 Expenditure of the federal, provincial (Québec), and local (municipalities and school boards) administrations and hospitals excluding transfers between administrations.

Source: OECD Economic Outlook, December 1985.
CANSIM: Statistics Canada 13-213.

TABLE 3
INVESTMENTS OF CROWN CORPORATIONS
GOUVERNEMENT DU QUÉBEC

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Total Crown corporations											
. in millions of current dollars	1 245.1	1 862.3	2 380.6	2 646.1	2 906.1	2 719.7	2 813.0	2 926.8	2 584.7	2 301.2	2 110.5
. in millions of constant dollars	861.9	1 215.9	1 446.9	1 473.6	1 475.1	1 242.1	1 149.9	1 098.0	948.3	824.8	729.4
. rate of growth	-	49.6	27.8	11.2	9.8	-6.4	3.4	4.0	-11.7	-11.0	-8.3
. in percentage of GDP	3.1	4.0	4.7	4.7	4.6	3.9	3.5	3.5	2.9	2.4	2.0
. in percentage of total investments	13.6	19.0	22.2	24.5	24.5	21.2	20.5	22.3	18.5	14.8	12.5
Hydro-Québec[1]											
. in millions of current dollars	1 087.9	1 267.7	1 942.1	2 563.3	2 797.7	2 576.2	2 627.3	2 524.4	2 202.8	1 790.4*	1 725.9*
. in millions of constant dollars	773.4	812.1	1 173.0	1 437.1	1 426.4	1 176.8	819.6	907.0	813.3	696.7	735.7
. rate of growth	-	16.5	53.2	32.0	9.1	-7.9	2.0	-3.9	-12.7	-18.7	-3.6
. in percentage of GDP	2.7	2.7	3.8	4.5	4.4	3.7	3.3	3.0	2.4	1.8	1.6
. in percentage of total investments	11.9	12.9	18.1	23.7	23.6	20.1	19.1	19.3	15.8	11.5	10.2
Other Crown corporations[2]											
. in millions of current dollars	157.2	594.6	438.5	82.8	108.4	143.5	185.7	402.4	381.9	510.8	384.6
. in millions of constant dollars	108.8	388.2	266.5	46.1	55.0	65.5	75.9	151.0	140.1	183.1	132.9
. rate of growth	-	278.2	-26.3	-81.1	30.9	32.4	29.4	116.7	-5.1	33.8	-24.7
. in percentage of GDP	0.4	1.3	0.9	0.1	0.2	0.2	0.2	0.5	0.4	0.5	0.4
. in percentage of total investments	1.7	6.1	4.1	0.8	0.9	1.1	1.4	3.1	2.7	3.3	2.3

* These statistics have been substantially revised since they were published by Statistics Canada.

1 Subsidies to enterprises and consumers are not included in these amounts.

2 Investments by Crown corporations include construction and purchases of machinery, excluding all financial transactions.

Source: Private and Public Investment in Québec, 1975-1977 to 1983-1985, compiled by the Bureau de la statistique du Québec based on Statistics Canada's mid-year survey.

TABLE 4
PUBLIC SECTOR INVESTMENT
GOUVERNEMENT DU QUÉBEC
(in millions of dollars)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985[1]
Government[2]	N/A	663	685	700	749	712	802	712	742	922	N/A
Educational institutions[3]	N/A	218	223	256	218	213	259	224	276	331	N/A
Health and welfare institutions[3]	N/A	157	136	83	124	157	166	148	165	110	N/A
Hydro-Québec[4]	N/A	1 267	1 950	2 588	2 818	2 592	2 668	2 546	2 248	1 681	N/A
Other Crown corporations[5]	N/A	1 303	656	429	356	386	374	342	369	314	N/A
Municipal agencies[6]	N/A	718	888	828	823	845	961	902	953	1 121	N/A
Total	N/A	4 326	4 538	4 884	5 088	4 905	5 230	4 874	4 753	4 479	N/A

1 Not available.

2 Government investments include its capital expenditures and the subsidies and loans to economic agents outside the public sector. Therefore, financial investments with other components of the public sector are excluded.
Sources: The Estimates and the Public Accounts.

3 Investments by school boards, colleges and universities and by health and welfare institutions include only new capital expenditures as defined for economic accounting purposes.
Sources: Public investment in Québec by administrative region, B.S.Q.; Private and Public Investment in Québec, B.S.Q.

4 Source: Hydro-Québec, data revised in January 1986 for 1984-1985.

5 Investments by Crown corporations correspond to the growth of long-term assets. The Société québécoise d'assainissement des eaux whose investments are included under "Municipal agencies" is excluded.
Sources: Financial statements of government corporations.

6 Investments by municipalities, urban and regional communities and transport commissions and corporations include only new capital expenditures as defined for economic accounting purposes.
Sources: Public investment in Québec by administrative region, B.S.Q.; Private and public investment in Québec, B.S.Q.; estimates of the ministère des Finances du Québec for the years 1980 to 1985.

TABLE 5

ENTERPRISES OF THE GOVERNMENT DU QUÉBEC

FINANCIAL DATA

AS AT MARCH 31, 1984

(in thousands of dollars)

ENTERPRISE	GOVERNMENT ASSETS					FINANCIAL DATA				
	Capital stock (1)	Loans and advances (2)	Government investment (3=1+2)	Accumulated surplus (def.) (4)*	Government assets (5=3+4)	Total assets (6)*	Long-term debts (7)*	Total revenue (8)*	Net earnings (9)*	Guaranteed borrowings (10)
INDUSTRIAL AND COMMERCIAL										
1. Hydro-Québec (31.12.83)	4 374 109	–	4 374 109	1 991 094	6 365 203	25 179 000	16 453 000	3 659 000	707 000	18 708 203
2. Loto-Québec	170	–	170	29 011	29 181	51 393	–	662 177	223 120	–
3. Raffinerie de sucre du Québec (RSQ)	27 000	–	27 000	(9 509)	17 491	81 473	40 235	40 174	(6 828)	–
4. Société des alcools du Québec (SAQ)	30 000	–	30 000	11 613	41 613	154 600	–	843 400	321 800	–
5. Sidbec (31.12.83)	582 000	33 967	615 957	(488 493)	127 464	630 134	419 426	403 623	(93 708)	348 350
6. Société générale de financement (SGF) (31.12.83)	222 934	15 000	237 934	45 792	283 726	1 031 000	352 000	852 900	5 300	–
7. Société nationale de l'amiante (SNA)	59 754	1 826	61 580	(26 951)	34 629	330 156	60 176	143 598	(11 310)	23 500
8. Société québécoise d'exploration minière (SOQUEM)	99 000	–	99 000	49 261	148 261	265 658	80 651	79 884	(1 339)	–
9. Société québécoise d'initiatives pétrolières (SOQUIP)	164 000	–	164 000	3 168	167 168	189 828	19 386	5 244	3 372	–
10. Société de rec. d'empl. et de dév. forestier (REXFOR)	58 750	18 680	77 430	9 464	86 894	119 900	22 143	86 655	(4 990)	–
11. Société québécoise des transports (SQT) (31.12.83)	35 000	–	35 000	(21 078)	13 922	113 036	57 337	21 898	(55 077)	–
12. Madelipêche	3 307	–	3 307	(2 695)	612	8 528	1 251	4 165	(4 166)	–
13. Société de développement de la Baie James (SDBJ) (31.12.83)	60 000	–	60 000	(35 547)	24 453	35 256	365	2 269	(38 084)	7 800
14. Société des établissements de plein air du Québec (SÉPAQ)	–	–	–	–	–	–	–	–	–	–
15. Société québécoise d'initiatives agro-alimentaires (SOQUIA)	46 400	300	46 700	1 450	48 150	51 126	–	4 124	59	–
TOTAL	5 762 124	69 763	5 831 187	1 556 580	7 388 767	28 241 888	17 505 980	6 808 111	1 076 149	19 087 853

*For the year ending closest to March 31, 1984.

Source: Financial statements of the corporations and Public Accounts 1983-1984, Vo. 1.

TABLE 6
ENTERPRISES OF THE GOUVERNEMENT DU QUÉBEC
FINANCIAL DATA
AS AT MARCH 31, 1985

(in thousands of dollars)

ENTERPRISE	GOUVERNMENT ASSETS					FINANCIAL DATA				
	Capital stock (1)	Loans and advances (2)	Government investment (3=1+2)	Accumulated surplus (def.) (4)*	Government assets (5=3+4)	Total assets (6)*	Long-term debts (7)*	Total revenue (8)*	Net earnings (9)*	Guaranteed borrowings (10)
INDUSTRIAL AND COMMERCIAL										
1. Hydro-Québec (31.12.84)	4 374 109	–	4 374 109	2 136 541	6 510 650	27 129 000	18 326 000	4 173 000	301 000	19 873 434
2. Loto-Québec	170	–	170	41 930	42 100	90 545	–	741 102	252 919	–
3. Raffinerie de sucre du Québec (RSQ)	36 000	–	36 000	(20 839)	15 161	77 736	28 900	46 047	(11 331)	–
4. Société des alcools du Québec (SAQ)	30 000	–	30 000	68	30 068	171 779	–	882 911	340 455	–
5. Sidbec (31.12.84)[1]	582 000	70 835	652 835	(836 209)	(183 374)	529 234	342 986	494 747	(445 716)	578 883
6. Société générale de financement (SGF) (31.12.84)	274 434	15 000	289 434	64 985	354 419	1 159 874	362 030	779 297	20 177	30 074
7. Société nationale de l'amiante (SNA)	94 769	1 825	96 595	(136 506)	(39 911)	255 604	56 715	115 771	(109 555)	23 500
8. Société québécoise d'exploration minière (SOQUEM)	110 600	–	110 600	41 992	152 592	271 860	72 282	80 612	(7 269)	–
9. Société québécoise d'initiatives pétrolières (SOQUIP)	203 900	–	203 900	10 750	214 650	436 735	178 102	30 065	7 582	–
10. Société de rec. d'expl. et de dév. forestier (REXFOR)	59 250	20 180	79 430	9 989	89 419	158 282	26 121	132 031	525	–
11. Société québécoise des transports (SQT) (31.12.84)	42 108	–	42 108	(17 524)	24 584	143 579	73 793	100 713	(6 460)	18 000
12. Madelipêche (31.12.84)	5 307	2 700	8 007	(3 511)	4 496	19 871	7 208	11 200	(815)	6 191
13. Société de développement de la Baie James (SDBJ) (31.12.84)	60 000	–	60 000	(59 280)	720	16 145	338	3 253	(23 733)	10 700
14. Société des établissements de plein air du Québec (SÉPAQ)	–	–	–	–	–	–	–	–	–	–
15. Société québécoise d'initiatives agro-alimentaires (SOQUIA)	51 800	300	52 100	(3 204)	48 896	51 126	–	4 124	59	–
TOTAL	**5 924 447**	**111 840**	**6 035 288**	**1 229 182**	**7 264 470**	**30 511 470**	**19 474 475**	**7 594 873**	**317 838**	**20 540 782**

*For the year ending closest to March 31, 1985.

1 Including an extraordinary loss of $343.3 million linked with the closing of SNL.

2 Including a 75.6% reserve for the acquisition of Mines SNA shares.

Source: Financial statements of the corporations and Public Accounts of the gouvernement du Québec 1984-1985, Vol. 1.

Appendix 2

Privatization in Canada and Britain:
the experience summarized

Privatization is a common political subject today in most industrialized countries. Debate runs along general lines, as opposed to party lines. In this de facto situation we see reflected certain doubts as to the State's role -- or at least as to its intervention -- in a market economy. Depending on the country concerned, this doubt can result in a wide variety of actions regarding Crown corporations. In the United Kingdom, privatization is concerned essentially with the denationalization of major industrial sectors. In the United States, where government is not nearly as involved in the economy, efforts have been directed toward a deregulation program to stimulate competition. Even in socialist France, the cult of nationalization, alive and well a scant five years ago, is gradually being abandoned. Finally, the Canadian government recently undertook a program of privatization of Crown corporations.

THE BRITISH EXPERIENCE

The context

The proliferation of Crown corporations in Great Britain is the result primarily of a major nationalization program begun after the Second World War. These corporations were created, often with a right of monopoly, in order to ensure a more equitable distribution of wealth and to promote general prosperity.

It is generally admitted that the results anticipated from the nationalization program were not obtained. In 1979, the nationalized sectors employed 1.5 million people, and represented 10% of the GNP. After the

early 1970s, the yield on capital investments was negligible, and gains achieved in one sector offset losses incurred in others.

The nationalized sector was the butt of much criticism. The cost of labour tended to increase more rapidly than in the private sector, although without a corresponding increase in productivity. The cost of goods and services for nationalized industries rose more quickly than the general consumer price index. Public satisfaction with goods and services offered by Crown corporations was low, reflecting the mediocre quality of the products in question and the lack of concern, nay in some cases the indifference, of the Crown corporations toward the needs of the consumers, according to the standards generally accepted in the private sector.

Within the context of a depressed economy, these results and observations provided substance for an in-depth debate on the role played by the nationalized industrial sectors, and on their justification. In 1979, a Conservative government was elected. This election marked the beginning of a radical reorientation of the country's economc policy. Since that time, the program for denationalizing Crown corporations has been at the heart of an overall strategy whose objective is to rationalize the nations's economy.

The objectives and the process

Privatization programs generally pursue a multitude of objectives. In the United Kingdom, the primary objective was to restructure the economy. The minister responsible for coordinating the privatization program justified the process thus:

> Privatisation is one of a range of policies whose aim is to reduce the size of the state-controlled sectors of the economy and to increase the proportion of assets owned privately. Reducing the size of the state sector helps to make our economy work better. That is because, in the state sector, resources tend to be used less efficiently largely since market disciplines are lacking.[1]

There was a return, then, to the free play of the forces of the market and of competition, with the objective of a generally more efficient economy.

The second objective of the privatization program is to promote the purchase of stock by the public. In this way the government hopes to promote an enterprise culture.

In addition to these two objectives -- vitalizing the structure of the economy and promoting stock purchases

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1 Privatisation in the United Kingdom. Address by John Moore, MP, July 18, 1984.

-- the British government was not indifferent to the revenue which could be derived from such denationalization.

In the United Kingdom, the prime responsibility for privatization of a Crown corporation rests with the ministry assigned to that corporation. This decentralized approach leads to certain problems, especially with respect to the uniform application of established policy. To solve these, a greater effort at coordination was made by the various ministries and departments responsible, under the umbrella of a minister responsible for coordinating the privatization program.

The first Crown corporations to be denationalized were those whose nature fitted best with the economic situation of that time.

In certain cases, the government reserved for itself a right of veto (Golden Share) or a right of inspection (Special Rights Share) over the future operations of the privatized corporations. This ensured that national objectives were pursued and that the conditions laid down by the government at the time of privatization were respected. This right was exercised, for instance, when the chemicals manufacturer Amersham International was privatized, in order to prevent any individual shareholder from holding any more than 15% of the shares in the firm. The government has used this mechanism in most cases, including the recent privatization of British Telecom.

Results

The next table gives a chronological list of Crown corporations privatized between 1979 and 1985, with the proceeds obtained in each case.

The method of privatization most frequently used was the public distribution of shares. This method was employed in the case of eight of the fourteen companies listed below. British Technology Group represents a special case. It was created to promote and support private enterprise in high tech sectors. This financial holding corporation was finally privatized following sales to institutional investors or private firms. Two of these public issues were made in each of the years 1981, 1982 and 1983, four in 1984, and two others in 1985. (The number of issues is higher than the number of corporations, since certain privatizations required more than one issue.)

COMPANY	SECTOR OF ACTIVITY	PROCEEDS (in millions of £)
British Aerospace	Aeronautics	389.0
Cable and Wireless	Telecommunications	1 045.0
Amersham International	Radio, chemicals	64.0
National Freight Co.	Road transport	5.0
Britoil	Petroleum	1 052.0
Associated British Ports	Port facilities	97.0
International Aerodio	Communications	60.0
BR Hotels	Hotels	51.0
Onshore Oil (Wytch Farm)	Petroleum	82.0
Enterprise Oil	Petroleum	380.0
Sealink	Ferry	66.0
Jaguar	Automobiles	297.0
British Telecom	Telecommunications	3 917.0
British Technology Group	Miscellaneous	N/A

Source: Her Majesty's Treasury.

Without a doubt the most spectacular success recorded by this type of privatization was the issue to the public of 50.7% of the shares of British Telecom in November 1984. The total proceeds recorded amounted to 3 916 million pounds sterling, making this

the biggest public distribution of shares ever recorded anywhere. Shares were sold in many nations. Given the scope of the issue, a major promotion campaign was mounted to ensure it of success. British Telecom has been private for a year now, and boasts 1.7 million shareholders. It is estimated that 96% of British Telecom's employees hold stock in their own company. The success of this issue can be explained primarily by the experience acquired in previous privatizations and by the positive spinoff resulting from the creation of a favourable climate among the investing public.

By the time the privatization process is complete, more than 600 000 jobs will have been transferred to the private sector. The contribution to the GDP of the Crown corporations will drop from 10% to 6.5%. To date, privatization of Crown corporations has brought seven billion pounds to the British Treasury.

Summing up, the preliminary results of the British privatization program are most positive. Some denationalized firms have recovered in a truly spectacular manner (example: National Freight Co.). And the government has cut the bonds of dependence which had developed between a number of corporations and the Public Treasury.

There are still a number of problems facing the British economy. But it is generally acknowledged that the private sector has been strengthened significantly by the addition of these now private, former Crown corporations.

THE CANADIAN EXPERIENCE

The context

Canada's Crown corporations grew in a context which was different from that of Britain's national corporations. Various structural factors peculiar to the Canadian market -- a small population, a vast country, insufficient capital, proximity to the American giant -- justified the creation of Crown corporations as instruments for economic development. Unlike what is happening in Britain, the quality of goods and services provided by Canada's Crown corporations can compare favourably with anything in the private sector. In Canada, then, there is no general dissatisfaction with the products of Crown corporations.

The objectives and the process

Privatization of Crown corporations was one of the major elements in the Conservative government's program when that government was elected in 1984. In October 1984, Sinclair Stevens, Minister of Regional Industrial Expansion, made public the government's intention of selling the Crown corporations owned by the Canadian Industrial Development Corporation (CIDC). Stevens' announcement sparked considerable interest in the policy announced.

When the CIDC was created, in 1983, privatization was already a subject of conversation on Parliament Hill. Most of the industrial firms likely to be privatized were found under the umbrella of this holding company.

APPENDIX 2

During the winter of 1984-1985, the Conservative government set up a Secretariat for Privatization under the authority of a committee of senior ministers. This Committee is directed by the President of the Treasury Board and holds responsibility for coordinating the whole privatization process.

The Privatization Secretariat is made up of about ten professionnals, and is a consultative and coordinating body. It is not directly responsible for privatization, however; this responsibility has been entrusted to the ministers assigned to the various corporations. The Secretariat plays an advisory role, and any direct responsibility it has in the privatization process is restricted.

The other organization most frequently associated with privatization is the CIDC. This is the privatization vehicle of the Minister of Regional Industrial Expansion who, in many respects, is the most important of the ministers assigned to corporations.

The CIDC is constituted as a holding company, with but a restricted number (four) of permanent employees. It is responsible for the principal industrial corporations belonging to the federal government: among others, Canadair, De Havilland, Teleglobe, CDC, Eldorado Nuclear.

With the election of its new president in the autumn of 1984, the CIDC became firmly committed to the process of privatization. It makes use primarily of consultants outside the government, and is relatively independent of the Secretariat. The President reports to the Minister of Regional Industrial Expansion, and to the senior civil servants in that department. Unlike the Secretariat, it has direct responsibilities in privatization as an organization assigned to corporations.

Results

The federal government's initial objective was to sell the CIDC's entire portfolio to one purchaser, within a twelve-month period. But given the scope of the proposed transaction and the various restrictions, the government soon decided that each corporation would be sold individually.

The first to be privatized was Northern Transportation Co., a shipping firm serving the Canadian Far North. Next, Arsenals Canada was sold to the Montréal-based SNC group, by way of public tenders. Then the government made public an agreement for the sale of De Havilland to Boeing, the American aerospace giant. Finally, in April 1985, the CIDC cut back its share capital in the Canada Development Corporation from 47% to 12%.

The exercise in privatization undertaken by the Canadian government showed clearly that this was an exercise more complex than had originally been thought. Privatization or Northern Transportation Co. took more than two years. Among other things, the delay was caused by the conditions the government attached to the sale. The purchasers of the corporation had to guarantee that there would be native people on the board of idrectors, a requirement which necessitated two calls for tenders. The exercise finally ended when native groups took over the corporation.

The problems related to the sale of Teleglobe Canada also showed up the necessity of providing the privatization exercise with a consistent framework of action. The CIDC has already called for tenders three times in this matter.